

Police and Fire Pension

Dear Pension Member:

Enclosed is your 1999 pension statement, an estimate of your normal age and service retirement benefits, and a Summary Annual Report. The pension statement shows your account's activity and your primary and secondary beneficiaries. If none are listed, your spouse is automatically your primary beneficiary. *Please call 441-8749 to request a beneficiary form if you would like to change or add a beneficiary.*

The benefit estimate assumes a 3% annual salary increase and a 7% annual return rate on assets. To help you in financial planning, benefit estimates for any future separation date are available at no charge (call 441-8749). We are working toward allowing pension members secure access to their own account data and allowing pension members to run their own benefit estimates from the City's intranet.

The Summary Annual Report (SAR) was created by an independent actuarial firm. The SAR provides a concise financial picture of the pension and a brief description of benefits. Please take a moment to review it.

Below are calendar year end figures on members and benefit payments.

	1995	1996	1997	1998	1999
Active Member Count	538	564	571	590	545
Pensioned Member Count	256	252	271	272	293
Regular Pension Benefits	\$2,205,63	\$2,859,24	\$3,167,35	\$3,228,49	\$3,519,09
COLA Benefits Paid	\$169,149	\$184,606	\$190,722	\$205,246	\$214,286

Pension assets returned -4.19% in 1999. This means the interest portion of a non-vested member's account value decreased. A vested member's benefit is based on years of service and regular pay (not return rate) so their total benefit was not affected.

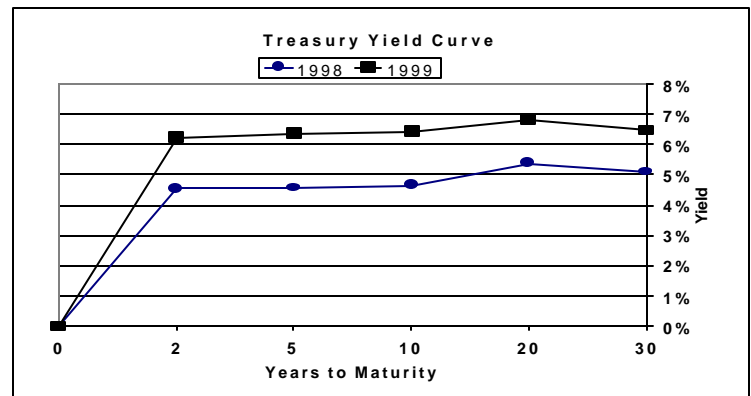
The negative return resulted for three reasons. First, the pension decided to phase in a change regarding crediting returns to members. On December 31, 1997, the pension changed from book to market value accounting (17.619% return credited to member accounts). On December 31, 1998, the pension changed from crediting market value returns annually in arrears to crediting market value returns each month (29.76% return credited).

Secondly, on December 31, 1998, asset allocation was 89.36% bonds. The bond portfolio consisted of a mixture of Treasury and agency bonds.

Ending 1999 interest rates were high compared to ending 1998 interest rates. (See Graph)

Since bond prices move the opposite direction of interest rates, as interest rates increased, bond prices decreased.

Third, in 1991 all pension assets were U.S. Treasury Bonds. Pension administration and the Advisory Committee created an investment policy allowing 30% of assets to be equities. After a national search, equity investing began in 1993, with the goal to reach 30% in 2 years. In 1994, a 5% allocation was attained and Mayor Johanns agreed to allow these funds to remain invested, but would not allow further equity purchases. In 1996 Mayor Johanns allowed an additional \$1 million equity investment. On December 31, 1998, equities made up 10.64% of all pension assets.



In August 1999 Mayor Wesely agreed to the pension's strategy to attain a 30% equity position in 24 months. A 30% equity and 70% debt allocation has historically provided the lowest risk.

Year Ending	Equity Return	Bond Return	Portfolio Return	Equity Allocation
1999	30.52%	-8.68%	-4.19%	18.95%
1998	20.25%	12.39%	13.17%	10.64%
1997	26.94%	13.56%	14.72%	9.81%
1996	19.18%	1.25%	2.49%	8.50%
1995	28.86%	27.30%	27.40%	6.29%

Approximately \$5 million of equity purchases occurred in 1999.

The 1999 equity return was excellent but the fund did not own enough equities to fully counteract the bond return. (See Table)

The pension fund is still in excellent financial health, as shown on the SAR. Over the long term, we are confident returns will revert to normal levels. City contributions also impact the pension's financial health. Although the City did not significantly increase its contribution in 1999, it is planning an increase of \$200,000 for each of the next 5 years, pending City Council approval.

Please plan for your financial future. The City of Lincoln offers payroll deduction savings programs for U.S. Savings Bonds, 1st Choice Credit Union, Deferred Compensation, Mutual Funds and the Roth IRA. I wish all of you and your families the best in 2000. Please call me (441-7879), or my assistant Paul Lutomski (441-8749), for more information on any of the topics mentioned in this letter or for any of your pension needs.

Respectfully,

John E. Cripe
Compensation Manager